

# ***Supplemental Report to the Dirigo Health Agency***

## **Dirigo Health Savings Offset Payment: Year 2 — Methodology Update and Preliminary Calculations\***

May 2, 2006

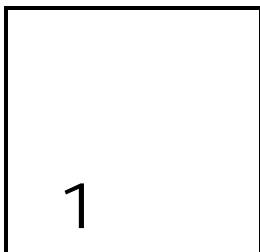
**MERCER**

Government Human Services Consulting

*\* The calculations included within this report are incomplete and are not intended to depict the final savings for Year 2. The calculations will be finalized once all of the necessary data is received. Please refer to “Report to the Dirigo Health Agency, Dirigo Health Savings Offset Payment: Year 2 – Methodology and Data Sources” for the expected time frame for data availability.*

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## Introduction — Savings Offset Payment Methodology Year 2 – Methodology and Preliminary Calculations

### Purpose and Intent of the Supplemental Report

Mercer Government Human Services Consulting (Mercer) has been engaged by the Dirigo Health Agency (DHA) to develop the Year 2 savings methodologies and ensure that they are consistent, as reasonable as possible given the absence of data, and are structured to adequately measure the impact of the initiatives on the rate of growth in the health care system in Maine. In Mercer's March 2006 report to the Dirigo Board, Dirigo Health Savings Offset Payment (SOP): Year 2 – Methodology and Data Sources, Mercer relied upon the Year 1 savings methodologies reviewed by and approved by the Superintendent of Insurance (Superintendent) and made adjustments to the savings methodologies in Year 2 to improve its ability to determine the impact of the Dirigo initiatives upon the health care system in the State of Maine (Maine). However, all of the relevant data necessary to calculate complete Year 2 savings SOP will not be available until July 2006, at the earliest.

The unavailability of data makes it impossible to determine the final savings amount for Year 2 at this time. However, at the request of James Smith, the presiding Hearing Officer for the Dirigo Board of Directors' Year 2 SOP hearing, Mercer supplemented the March Year 2 SOP report with as many preliminary calculations and resulting savings as the available data allowed at the time of this writing. This report represents those supplemental and preliminary findings.

The savings calculations contained within this supplement to the March, 2006 Year 2 SOP report are incomplete. They are not intended to represent the final savings calculations for Year 2 of Dirigo Health. Once the necessary data to calculate the complete SOP is available, every effort will be made to complete the calculations as soon

as possible. All necessary data is anticipated to be available by approximately July 15, 2006. Based on that date, Mercer expects to have complete calculations and a final Year 2 savings amount by the end of July 2006. For a complete list of the projected arrival dates of the required data, please refer to the March 2006 Dirigo Health Savings Offset Payment: Year 2 – Methodology and Data Sources.

The following summary of initiatives contains calculations and savings amounts per initiative. Unless noted, this report supplements the March Dirigo Health Savings Offset Payment: Year 2 – Methodology and Data Sources report and should be considered an interim document to the final savings calculation findings.

<i>Initiative</i>	<i>Preliminary Year 2 Savings Amount per this report</i>
<i>Hospital &gt; CMAD</i>	<i>\$72.7 Million</i>
<i>Uninsured &gt; Bad Debt/Charity Care for Uninsured &amp; Under- insured &gt; MaineCare Adult Expansion and Woodwork</i>	<i>\$2.7 Million \$3.9 Million</i>
<i>CON/CIF &gt;Hospital, large projects &gt;Non-hospital, large projects &gt;Hospital, small projects &gt;Non-hospital, small projects</i>	<i>\$5.5 Million To be determined To be determined To be determined</i>
<i>Health Care Provider Fee &gt; Hospital Prospective Interim Payment Increase &gt; Physician Fee Increase</i>	<i>\$7.0 Million \$8.2 Million</i>

All figures are presented for either the period ending December 31, 2006, or adjusted to a standardized 2006 basis.

Note that we have summarized the Hospital Market Basket Index (HMBI) and interest rates used to standardize the calculations and presented them in Appendix A and Appendix B, respectively.

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## Hospital Savings Initiatives

### Introduction

This section outlines the available data, calculations and savings related to the hospital savings initiatives.

### Cost per Case-Mix Adjusted Discharge

The following calculations are not complete for Year 2. They are not intended to represent the final savings amount for Year 2 of Dirigo Health. Once the necessary data to calculate the complete savings is available, every effort will be made to complete the calculations and final savings amount for this initiative as soon as possible.

### Methodology

The CMAD methodology for savings determination has not changed from the March 2006 Dirigo Health Savings Offset Payment: Year 2 – Methodology and Data Sources report. Please refer to the March 2006 report for the data sources that are used in this calculation.

The following outlines the process Mercer will take in order to determine the CMAD savings in Year 2:

1. Blend HFY data for each hospital as necessary to put all hospitals on a SFY basis.
2. Sum revenues and expenses across all hospitals to determine system-wide revenues and expenses, then calculate statewide CMAD figures for SFYs 2000-2003 and 2005.
3. Estimate SFY03 costs system-wide by projecting SFY00 CMAD costs using the hospital market basket increases for each year:

State Fiscal Year	Hospital Market Basket Trends (HMBI)
2000 to 2001	4.1%
2001 to 2002	4.0%
2002 to 2003	3.9%
2003 to 2004	3.8%
2004 to 2005	4.2%

For example, if SFY00 CMAD cost was \$5000, SFY03 *projected* costs based on inflation alone would be:  $\$5000 \times (1.041) \times (1.040) \times (1.039) = \$5625$ .

4. Compare projected SFY03 costs with actual SFY03 CMAD. The difference is the cost growth above inflation. In our example above, if we assume the actual SFY03 CMAD is \$6000, the cost growth above inflation would be calculated as:  $(\$6000 / \$5625)^{1/3} - 1 = 2.2\%$ . This 2.2% represents a compound annual rate of growth factor over the three years.
5. Project the SFY05 CMAD using the actual SFY03 CMAD, HMBI trends, and the annual rate of growth above inflation. Following our above example, the projected SFY05 CMAD would be:  $\$6000 \times (1.038) \times (1.042) \times (1.022)^2 = \$6775$ .
6. Compare the projected statewide SFY05 CMAD with the actual statewide SFY05 CMAD. Savings is calculated as the difference of the projected system-wide figure compared to the actual. In our example, if the actual SFY05 CMAD figure is \$6650, savings per CMAD would be:  $\$6775 - \$6650 = \$125$ .
7. Multiply the savings per CMAD by the total Maine hospital case-mix adjusted discharges in SFY05 to arrive at our final savings number. Following the example, if total Maine case-mix adjusted discharges are 340,000, then our final savings figure is:  $340,000 \times \$125 = \$42.6$  million.

Since all of the necessary data is not available to determine the final Year 2 savings figure, Mercer had to estimate data for those hospitals in which data through the end of State fiscal year 2005 is unavailable. Our approach was applied to any hospital that had a fiscal year end of December 31, 2005 or later. Maine Medical Center, which has a hospital fiscal year end of September 30, applied for and received an extension on the filing of their 9/30/2005 data, so that this approach was also necessary for them. Appendix C illustrates those hospitals in which SFY05 has been received.

All CMAD hospital fiscal year (ending 9/30/04 through 5/31/05) dollar related components (except for hospital tax allocation) for hospitals with missing data were projected to hospital fiscal year (9/30/05 through 5/31/06), including the missing parts of State fiscal year 2005 using the following trend components:

1. HMBI trend – accounts for hospital specific cost differences from the base to the projection.
2. trend above HMBI – accounts for pre-Dirigo annual rate of growth above inflation in the hospital market basket.
3. discharge trend – accounts for the change in discharges.

4. case mix index trend – accounts for the change in case mix index.

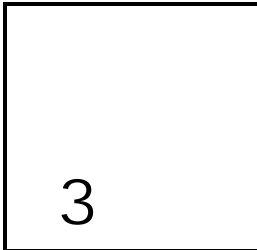
Once the four multiplicative components identified above are applied to the base year dollars, the estimated projection year CMAD can be calculated.

It should be noted that MHDO provided Mercer with discharges and case mix indices on a hospital fiscal year basis for 2000-2005, consistent with Medicare Cost Reports (MCRs). This is a change from Year 1 methodology in which those figures were provided on a calendar year basis.

## Calculations

The CMAD calculations can be found in Appendix D and result in preliminary savings of \$72.7 million.

**NOTE:** *Due to time constraints involved in meeting the Hearing Officer's request for preliminary calculations by May 2, 2006, Mercer did not update the Year 1 baseline MCR data for 2000 to 2004. Mercer instead focused on inputting the MCRs covering 2005.*



## Uninsured Savings Initiatives

### Introduction

This section outlines the available data, calculations and savings amounts related to the uninsured savings initiatives. The payments represented by the following calculations in each of the sub-sections of this initiative are not complete for Year 2. They are not intended to represent the final savings amounts for Year 2 of Dirigo Health. Once the necessary data to calculate the complete savings is available, every effort will be made to complete the calculations and final savings amount for this initiative as soon as possible.

### Bad Debt and Charity Care Savings

#### Methodology

The bad debt and charity care savings methodology for savings determination has not changed from the March 2006 Dirigo Health Savings Offset Payment: Year 2 – Methodology and Data Sources report. Please refer to the March 2006 report and the detailed calculation shown in Appendix E for the data sources that are used in this calculation.

#### Calculations

The bad debt and charity care savings due to the enrollment of previously uninsured and under-insured into Dirigo are shown in Appendix E. This calculation results in \$2.7 million in preliminary savings.



## MaineCare Adults Expansion

### Methodology

The MaineCare Adults Expansion savings methodology for savings determination has not changed from the March 2006 Dirigo Health Savings Offset Payment: Year 2 – Methodology and Data Sources report. The calculation covers Adult Expansion enrollment from July 2005 through December 2006, using actual enrollment, where available. For estimates in future months, Mercer assumed no growth from the most recent actual enrollment figure. Please refer to the March 2006 report and the detailed calculation shown in Appendix F for the data sources that are used in this calculation.

### Calculations

The MaineCare Adult Expansion savings calculation is shown in Appendix F and results in \$3.9 million in preliminary savings.

## Woodwork Effect Savings

### Methodology

The Woodwork Effect savings methodology for savings determination has changed from the March 2006 Dirigo Health Savings Offset Payment: Year 2 – Methodology and Data Sources report. Rather than an estimate of the woodwork effect based pre- and post-Dirigo MaineCare enrollment patterns, we have used a direct count of persons who applied for medical coverage with a Dirigo application, but were determined to be eligible for MaineCare rather than Dirigo. The calculation covers such enrollment from July 2005 through December 2006, using actual enrollment, where available. For estimates of future months, Mercer assumed no growth from the most recent actual enrollment figure. Please refer to the March 2006 report and to the detailed worksheet in Appendix F for the data sources that are used in this calculation.

### Calculations

The MaineCare Woodwork Savings calculation is shown in Appendix F and results in \$57,000 in preliminary savings.

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## Certificate of Need and Capital Investment Fund Savings Initiatives

### Introduction

This section outlines the available data, calculations and savings related to the Certificate of Need (CON) and Capital Investment Fund (CIF) Savings Initiatives. The payments represented by the following calculations are not complete for Year 2. They are not intended to represent the final savings amounts for Year 2 of Dirigo Health. Once the necessary data to calculate the complete savings is available, every effort will be made to complete the calculations and final savings amounts for this initiative as soon as possible.

### Methodology

The methodology for determining cost savings has been updated to capture a more accurate portrayal of savings offset payment. Please refer to the March 2006 report and the detailed worksheets in Appendix G only for the data sources that are used in the CON/CIF calculation.

The revised methodology and calculation of the final savings are depicted in the following 3 step process:

### Revised Methodology

It was not possible to use the methodology described in the March 2006 report and still meet the request of the Hearing Officer to have preliminary savings calculations for this initiative by May 2. The revised methodology for this initiative is based on two factual events that have come to light in the past month. After concentrated study, it was noted that several large hospital CON submissions were withdrawn and revised to comply with the third year threshold for operating costs. The revised methodology draws on these

measurable events to calculate the third year operating costs. The second event upon which savings is based is centered on the CIF limitations of annual funds for granting CON for the year. While the selection of hospitals to which CON approval will be awarded has not taken place, there is not sufficient room in the current CIF limitations to approve all of the submitted projects. Mercer determined all of the possible approval combinations and chose the combination that yielded the lowest savings amount. Therefore, the subsequent calculation is a conservative estimate and is not final. The following is a depiction of the revised methodology for CON/CIF savings calculations.

#### Step #1:

- Isolate those hospitals that revised or withdrew their CON submissions to present a third year operating cost that would be less than the \$400,000 threshold for review.
- Subtract the revised third year operating costs from the threshold limit for the calculated savings.
- Apply present value to bring the savings amount from the estimated 3rd year of operation back to CY 2006.
- This resulted in **preliminary** savings attributable to the CON process.

#### Step #2:

- The current submission of requests for large hospital CONs exceed the limits for CIF spending and the final approved projects will not be determined until June 1. Therefore, we estimated those that would be denied and measured that as savings. In order to estimate savings for this report, we reviewed all possible combinations of what would be approved and denied. Refer to second page of worksheet in Appendix G for these combinations.
- We then selected the approach that allows for the least possible savings, as determined under the CON requirements, and subtract the total value from the 2006 CIF spending limits.
- The present value of this amount was calculated to bring the savings amount from the estimated 3rd year of operation back to CY 2006.
- The difference is the **preliminary** savings attributable to CIF.

#### Step #3:

- Add Steps 2 & 3 together to arrive at the **preliminary** savings figures;
- The exact amount of large hospital savings due to the CIF will not be known until after June 1. The amount of savings for small hospital and non-hospital projects will also not be known until after June 1. The preliminary savings will be updated upon the completion of the CON approval process.

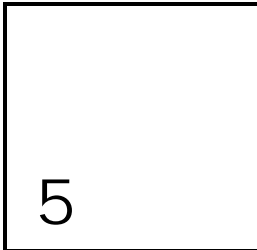
Both Step #1 and Step #2 above are very conservative estimates of savings. In Step #1 above only savings from those hospitals that withdrew their requests and resubmitted to comply with the year three threshold were utilized in the calculation. The sentinel effect is not known regarding how many other hospitals submitted, or planned to submit, a

request for CON, withdrew and did so due to the more stringent CON/CIF approval process. The calculation does not attempt to count or determine these unknown withdrawal values as savings.

In Step #2 above, the selected combination of large hospital projects, that if approved, would result in the least amount of savings. In reality a different set of hospitals could actually be approved and the savings will be greater. Therefore, both of the above calculations target conservative savings. The final figures will be provided after June 1, 2006.

## Calculations

Refer to Appendix G for the CON/CIF savings calculation which results in preliminary savings of \$5.4 million.



## Health Care Provider Fee Savings Initiatives

### Introduction

This section outlines the available data, calculations and savings amounts related to the health care provider fee savings initiatives.

### Hospital Fee and Physician Fee Initiatives

#### Methodology

The hospital fee and physician fee methodology for savings determination has not changed from the March 2006 Dirigo Health Savings Offset Payment: Year 2 – Methodology and Data Sources report. Please refer to the March 2006 report and the detailed worksheet in Appendix H for the data sources that are used in this calculation.

#### Calculations

The calculation of the hospital and provider fee initiatives is in Appendix H and results in \$15.2 million in savings.

## APPENDICES

## Appendix A. Treasury Rate Information

### Interest Rates

		United States Treasury Rates				
Sample Date	Calculation Date	1 Year	2 Year	3 Year	4 Year	5 Year
1/3/2005	January-05	2.79%	3.10%	3.28%	3.46%	3.64%
1/3/2006	January-06	4.38%	4.34%	4.30%	4.30%	4.30%
2/1/2006	February-06	4.60%	4.59%	4.54%	4.53%	4.51%
3/1/2006	March-06	4.74%	4.71%	4.68%	4.66%	4.63%
4/3/2006	April-06	4.86%	4.86%	4.85%	4.85%	4.85%
4/28/2006	May-06	4.90%	4.87%	4.87%	4.90%	4.92%
4/28/2006	June-06	4.90%	4.87%	4.87%	4.90%	4.92%
4/28/2006	July-06	4.90%	4.87%	4.87%	4.90%	4.92%
4/28/2006	August-06	4.90%	4.87%	4.87%	4.90%	4.92%
4/28/2006	September-06	4.90%	4.87%	4.87%	4.90%	4.92%
4/28/2006	October-06	4.90%	4.87%	4.87%	4.90%	4.92%
4/28/2006	November-06	4.90%	4.87%	4.87%	4.90%	4.92%
4/28/2006	December-06	4.90%	4.87%	4.87%	4.90%	4.92%

- Data comes from the U.S. Treasury Website:  
<http://www.ustreas.gov/offices/domestic-finance/debt-management/interest-rate/yield.shtml>
- Rates are sampled on the first reporting day of each month.
- *Italicized rates are not available. They reflect the most current data available on 4/28/2006.*
- 4 Year rates are unavailable through the U.S. Treasury website. Rates have been interpolated.
- Time Value of Money calculation for the Hospital PIP Payments utilizes rates from 1/3/2006 and 4/28/2006.
- CON/CIF and Uninsured calculations utilize CY2006 Interest Rates

## Appendix B. HMBI Information

	2006q1
	PPS02
1998:1	1.020
1998:2	1.033
1998:3	1.043
1998:4	1.047
1999:1	1.052
1999:2	1.058
1999:3	1.066
1999:4	1.077
2000:1	1.084
2000:2	1.094
2000:3	1.106
2000:4	1.117
2001:1	1.132
2001:2	1.144
2001:3	1.155
2001:4	1.164
2002:1	1.175
2002:2	1.185
2002:3	1.197
2002:4	1.209
2003:1	1.224
2003:2	1.231
2003:3	1.244
2003:4	1.253
2004:1	1.268
2004:2	1.280
2004:3	1.296
2004:4	1.307
2005:1	1.323
2005:2	1.332
2005:3	1.349
2005:4	1.361
2006:1	1.374
2006:2	1.384
2006:3	1.399
2006:4	1.411
2007:1	1.422
2007:2	1.432
2007:3	1.445
2007:4	1.456
2008:1	1.467
2008:2	1.477
2008:3	1.489
2008:4	1.499
2009:1	1.508
2009:2	1.514
2009:3	1.524
2009:4	1.529

State Fiscal Year			
Year	Index		Trend
SFY00	1.080		
SFY01	1.125	00 to 01	4.1%
SFY02	1.170	01 to 02	4.0%
SFY03	1.215	02 to 03	3.9%
SFY04	1.261	03 to 04	3.8%
SFY05	1.315	04 to 05	4.2%
SFY06	1.367	05 to 06	4.0%

Calendar Year			
Year	Index		Trend
CY00	1.100		
CY01	1.149	00 to 01	4.4%
CY02	1.192	01 to 02	3.7%
CY03	1.238	02 to 03	3.9%
CY04	1.288	03 to 04	4.0%
CY05	1.341	04 to 05	4.2%
CY06	1.392	05 to 06	3.8%

4/1-3/31			
Year	Index		Trend
00	1.071		
01	1.112	00 to 01	3.8%
02	1.160	01 to 02	4.2%
03	1.204	02 to 03	3.8%
04	1.249	03 to 04	3.8%
05	1.302	04 to 05	4.2%
06	1.354	05 to 06	4.0%

5/1-4/30			
Year	Index		Trend
00	1.074		
01	1.116	00 to 01	3.9%
02	1.163	01 to 02	4.2%
03	1.208	02 to 03	3.8%
04	1.253	03 to 04	3.8%
05	1.306	04 to 05	4.2%
06	1.358	05 to 06	4.0%

6/1-5/31			
Year	Index		Trend
00	1.077		
01	1.121	00 to 01	4.0%
02	1.166	01 to 02	4.1%
03	1.211	02 to 03	3.9%
04	1.257	03 to 04	3.8%
05	1.310	04 to 05	4.2%
06	1.363	05 to 06	4.0%

10/1-9/30			
Year	Index		Trend
00	1.090		
01	1.137	00 to 01	4.3%
02	1.180	01 to 02	3.8%
03	1.227	02 to 03	4.0%
04	1.274	03 to 04	3.9%
05	1.328	04 to 05	4.2%
06	1.380	05 to 06	3.9%

Uninsured Numbers							
	start	end	midpoint	trend months	index	cumulative trend	annual trend
base:							
4 quarters ending 3rd quarter '04	10/1/2003	9/30/2004	3/31/2004		1.274		
projections:							
4 quarters ending 4rd quarter '06	1/1/2006	12/31/2006	7/2/2006	27	1.392	9.2%	4.0%
6 quarters ending 4th quarter '06	7/1/2005	12/31/2006	4/1/2006	24	1.380	8.3%	4.1%

Link for PPS02 Index: <http://myinsight.globalinsight.com/servlet/cats?pageContent=software&serviceID=4077>  
Subscription is required for access.



## Appendix C. Hospital Data Availability

Hospital	Hospital Fiscal Year Ending	FY05 Medicare Cost Report Available as of March 27 Hearing	FY05 Medicare Cost Report Available as of May 1
AROOSTOOK MEDICAL CENTER	09/24/05	Yes	Yes
BLUE HILL MEMORIAL	03/31/05	Yes	Yes
BRIDGTON HOSPITAL <sup>(1)</sup>	06/30/05	Yes	Yes
C. A. DEAN MEMORIAL HOSPITAL	09/24/05	Yes	Yes
CALAIS REGIONAL HOSPITAL	12/31/05	No-Not Due Yet	No-Not Due Yet
CARY MEDICAL CENTER	12/31/05	No-Not Due Yet	No-Not Due Yet
CENTRAL MAINE MEDICAL CENTER	06/30/05	Yes	Yes
DOWNEAST COMMUNITY HOSPITAL <sup>(2)</sup>	12/31/05	Yes	Yes
EASTERN MAINE MEDICAL CENTER	09/24/05	No-Overdue	Yes
FRANKLIN MEMORIAL HOSPITAL	06/30/05	Yes	Yes
HENRIETTA D. GOODALL HOSPITAL	05/31/05	Yes	Yes
HOULTON REGIONAL HOSPITAL	09/30/05	Yes	Yes
INLAND HOSPITAL	09/24/05	No-Overdue	Yes
MAINE COAST MEMORIAL HOSPITAL	06/30/05	Yes	Yes
MAINE MEDICAL CENTER	09/30/05	No-Not Due Yet	No-Overdue
MAINEGENERAL MEDICAL CENTER	06/30/05	No-Overdue	Yes
MAYO REGIONAL HOSPITAL	09/30/05	Yes	Yes
MERCY HOSPITAL	12/31/05	No-Not Due Yet	No-Not Due Yet
MID COAST HOSPITAL	09/30/05	No-Not Due Yet	Yes
MILES MEMORIAL HOSPITAL	09/30/05	Yes	Yes
MILLINOCKET REGIONAL HOSPITAL	06/30/05	Yes	Yes
MOUNT DESERT ISLAND HOSPITAL	04/30/05	Yes	Yes
NORTHERN MAINE MEDICAL CENTER	09/30/05	Yes	Yes
PARKVIEW ADVENTIST MEDICAL CENTER	12/31/05	No-Not Due Yet	No-Not Due Yet
PENOBSCOT BAY MEDICAL CENTER	03/31/05	Yes	Yes
PENOBSCOT VALLEY HOSPITAL	12/31/05	No-Not Due Yet	No-Not Due Yet
REDINGTON-FAIRVIEW GENERAL HOSPITAL	06/30/05	Yes	Yes
RUMFORD HOSPITAL	06/30/05	Yes	Yes
SEBASTICOOK VALLEY HOSPITAL	09/30/05	No-Not Due Yet	Yes
SOUTHERN MAINE MEDICAL CENTER	04/30/05	No-Overdue	Yes
ST. ANDREWS HOSPITAL	09/30/05	Yes	Yes
ST. JOSEPH HOSPITAL	12/31/05	No-Not Due Yet	No-Not Due Yet
ST. MARY'S REGIONAL MEDICAL CENTER	12/31/05	No-Not Due Yet	No-Not Due Yet
STEPHENS MEMORIAL	09/30/05	Yes	Yes
WALDO COUNTY GENERAL HOSPITAL	06/30/05	No-Overdue	Yes
YORK HOSPITAL	06/30/05	Yes	Yes

<sup>(1)</sup> Data only available for 1/1/05 to 6/30/05

<sup>(2)</sup> Data only available for 1/1/05 to 7/31/05

## Appendix D. CMAD Savings Calculation

### Statewide Hospital Data

Data Element	Dirigo Year					
	2005	2004	2003	2002	2001	2000
Col 1, Ln 103	2,155,212,589	2,020,364,466	1,868,565,726	1,718,821,845	1,521,684,534	1,405,723,693
RHC Expense	34,156,415	31,826,604	11,383,590	2,203,616	731,579	724,059
Education	-	-	-	-	-	-
Research	-	-	-	-	-	-
Col 1, Ln 34	17,824,654	25,153,346	23,407,121	14,161,260	12,704,444	11,674,275
Col 1, Ln 35	7,759,302	13,318,726	13,050,926	10,004,338	10,538,493	11,371,348
Col 1, Ln 36	2,965,041	3,067,820	3,162,117	3,164,912	3,188,415	3,052,063
Col 6, Ln 103	2,325,922,115	2,228,005,758	2,065,648,207	1,909,554,784	1,722,208,392	1,595,816,845
Col 6, Ln 34	13,078,032	18,168,642	18,288,022	11,201,271	10,647,954	9,907,833
Col 6, Ln 35	8,907,423	13,630,363	13,211,652	10,103,958	9,998,782	9,968,489
Col 6, Ln 36	2,909,616	2,947,559	3,021,177	2,884,173	2,788,954	2,683,022
Col 7, Ln 103	2,080,341,866	1,878,922,762	1,626,957,172	1,411,633,235	1,184,486,884	1,037,477,009
RHC O/P Rev	23,113,115	22,781,548	5,292,495	390,891	515,409	390,241
Col 7, Ln 34	-	-	-	-	-	-
Col 7, Ln 35	-	-	-	-	-	-
Col 7, Ln 36	-	-	-	-	-	-
Case Mix and outpt adj discharges	344,711	343,280	328,904	316,171	305,079	293,943
Hospital Tax Allocation	47,706,721	18,515,604	1,933,583	4,625	-	-
Total discharges - MHA	154,081	158,415	156,290	154,787	155,976	152,828
Total discharges, MHDO	154,081	158,415	156,290	154,787	155,976	152,828
Case Mix Adjusted Discharges	185,971	192,152	188,273	185,078	184,489	182,542
Total discharges, HS	25,178	141,403	143,239	141,130	142,026	142,018
Cost per CMAD incl newborn	6,316	5,912	5,800	5,613	5,097	4,868

### Savings Calculation

SFY	CMAD	HMBI Trend	SFY00 CMAD trended to SFY03	Rate above inflation	Estimated SFY05 CMAD	Total Savings per CMAD	Discharges	Total Savings
2000	\$ 4,868	1.041						
2001	\$ 5,097	1.040						
2002	\$ 5,613	1.039						
2003	\$ 5,800	1.038	\$ 5,476	1.9%				
2004	\$ 5,912	1.042						
2005	\$ 6,316	1.040			\$ 6,518	\$ 202	344,711	\$ 69,597,520

Annual Interest Rate\*

2.945%

Interest Value

\$ 3,096,996

Total SFY05 Savings with interest adjustment to CY2006

\$ 72,694,516

Note: An Interest Rate was applied for 18 months to bring savings from State Fiscal Year 2005 (midpoint of 1/1/05) to Calendar Year 2006 (midpoint of 7/1/06). This rate taken from Daily U.S. Treasury Yield Curve Rates available 1/3/05. The 1 year rate was 2.79% and the 2 year rate was 3.10%, so the 18 month rate would be the average of the two, calculated to be 2.945%.

## Appendix E. Uninsured and Under-insured Savings Calculations

	Uninsured							
	Hospital			Notes	Other Providers			Notes
	Bad Debt	Charity Care	Total		Bad Debt	Charity Care	Total	
<b>Expenses: (\$s in Millions)</b>								
			\$ 150	from 4/15/05 DHA presentation			\$ 29	
Determines Other Prov BD/CC			84%	from Bad Debt and Free Care Baseline Analysis Report, by Nancy Kane (12/9/04)			16%	1-.84
Split betw BD/CC	\$ 108	\$ 42	\$ 150	Splits taken from 4/15/05 DHA presentation	\$ 22	\$ 7	\$ 29	Assumed similar ratios of BD&CC
% Attributable	50%	90%		from 4/15/2005 DHA presentation, taken from MHA 2004 Survey	50%	90%		from 4/15/2005 DHA presentation, taken from MHA 2004 Survey
Total BD/CC	\$ 54	\$ 38	\$ 92		\$ 11	\$ 6	\$ 17	

Note: The base data is unchanged from the base data used to calculate Year 1 savings.

### Member Months:

A. 2004 Total MMs 2004 Census Data (see attached) \* 12 months  
(132,000)\*12 1,584,000

### Per Member Per Month: (\$s in \$0.00)

B. BD/CC divided by member months							<b>\$ 68.88</b>
C. Increase for trend to CY 2006		9.2% HMBI		4 qtrs ending 4th qtr 2006			<b>\$ 75.24</b>
Base from hospital fiscal years ending in 2004, averaging ending 9/30/2004				over 4 qtrs ending 3rd qtr 2004			
				Version as of 2nd qtr 2006			
D. Adjust Charge PMPM to Cost PMPM		49.7% From 2004 MCRs; This is conservative as the numbers are from Exhibit C which adjusts the data for non-allowable costs.					<b>\$ 37.41</b>
E. Adjust for Cost-Sharing		4.3% (See Attached Document)					<b>\$ 35.81</b>

### Dirigo Health Plan Enrollees:

F. Total Population (in MMs)	115,106	Enrollment provided by DHA (See below)	% Previously Uninsured	
CY06 Projected MMs			39% From 2006 DirigoChoice Member Survey provided by DHA (See below)	44,944

### Total Estimated Bad Debt and Charity Care Savings:

G. PMPM of those enrolling who were uninsured/under-insured = (E) times estimated increase risk of those enrolling in Dirigo (using Mercer's CPD below)			<b>\$ 48.78</b>
H. Estimated Savings (FxG)			<b>\$ 2,192,289</b>

## Appendix E. Uninsured and Under-insured Savings Calculations (con't)

**Expenses: (\$s in Millions)**

Hospital			Notes	Under-insured			Notes	Total
Bad Debt	Charity Care	Total		Bad Debt	Charity Care	Total		
		\$ 150	from 4/15/05 DHA presentation		\$ 29			\$ 179
			from Bad Debt and Free Care Baseline Analysis Report, by Nancy Kane (12/9/04)				1-.84	
		84%				16%		
			Splits taken from 4/15/05 DHA presentation				Assumed similar ratios of BD&CC	
\$ 108	\$ 42	\$ 150		\$ 22	\$ 7	\$ 29		\$ 179
	20%	0%	Mercer assumption	20%	0%		Mercer assumption	
\$ 22	\$ -	\$ 22		\$ 4	\$ -	\$ 4		\$ 26

Note: The base data is unchanged from the base data used to calculate Year 1 savings.

**Member Months:**

A. 2004 Total MMs

2004 Census Data (see attached) \* 12 months  
(44,560)\*12 534,723

**Per Member Per Month: (\$s in \$0.00)**

B. BD/CC divided by member months

\$ 48.62

C. Increase for two years of trend (2004->2006)  
(assume two years due to different hospital FYs)

\$ 53.12

D. Adjust Charge PMPM to Cost PMPM

\$ 26.41

E. Adjust for Cost-Sharing

\$ 25.28

**Dirigo Health Plan Enrollees:**

F. Total Population (in MMs)  
CY06 Projected MMs

115,106 Enrollment provided by DHA  
(See below)

% Previously Under-insured  
15% From 2006 DirigoChoice Member Survey - take percent that had insurance and assume 25% of those were under-insured. (61% x 25%)  
17,541

**Total Estimated Bad Debt and Charity Care Savings:**

G. PMPM of those enrolling who were uninsured/under-insured = (E) times estimated increase risk of those enrolling in Dirigo (using Mercer's CPD below). The under-insured population is half the increased risk as the insured.

\$ 29.86

H. Estimated Savings (FxG)

\$ 523,745

<b>Total of Uninsured and Under-Insured</b>	<b>\$ 2,716,034</b>
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## Appendix E. Uninsured and Under-insured Savings Calculations (con't)

Mercer's Claims Probability Distribution (CPD)												
Portion of Population		Annual Cost as % of Average	Assumed Relative Propensity To Enroll				Assumed Portions Enrolled	Portion of Population Enrolled		Annual cost as % of Average		
21%	\$	2	1%	40%			4.00%	0.84%		1%		
19%	\$	25	9%	50%			5.00%	0.95%		9%		
22%	\$	85	30%	60%			6.00%	1.32%		30%		
20%	\$	228	82%	70%			7.00%	1.40%		82%		
10%	\$	510	183%	80%			8.00%	0.80%		183%		
8%	\$	1,978	710%	90%			9.00%	0.72%		710%		
100%	\$	279	100%	60%	Assumption	10%	6.03%	6.03%		136%	36%	
									Relative amount of utilization that the uninsured who enroll in Dirigo have compared to the average uninsured person.			

## Appendix F. MaineCare Adults Expansion Savings Calculation

<b>Medicaid Expansion Parents</b>													
Persons who function as the primary caretakers of dependent children and whose income is above 150% and up to and including 200% of FPL.													
<b>Member Months - July 2005 - December 2006:</b>													
A. Projected Total Member Months (07/01/05-12/31/06)				DHA MaineCare CASELOAD Data (See Below)				80,315					
<b>July 2005 - December 2006: Per Member Per Month:</b>													
B. Estimated PMPM cost for those enrolling (taken from the uninsured PMPM)								\$ 68.88					
C. Increase for trend to CY 2006				8.3% HMBI		6 qtrs ending 4th qtr 2006 over 4 qtrs ending 3rd qtr 2004				\$ 74.57			
Base from hospital fiscal years ending in 2004, averaging ending 9/30/2004 Version as of 2nd qtr 2006													
D. Adjust Charge PMPM to Cost PMPM				49.7% From 2004 MCRs; This is conservative as the numbers are from Exhibit C which adjusts the data for non-allowable costs.				\$ 37.08					
E. Adjust for Cost-Sharing				4.3% (See Attached Document)				\$ 35.50					
F. PMPM of those enrolling who were uninsured/under-insured = (E) times estimated increase risk of those enrolling in Medicaid (using Mercer's CPD below)								\$ 48.35					
G. Savings estimate for those enrolling (AxB)								\$ 3,882,930					
<b>CY 2006 Medicaid Expansion Parents Member Months</b>													
Per DHA Enrollment Reports													
TOTAL – Covered lives	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec	
	4,545	4,749	4,907	4,907	4,907	4,907	4,907	4,907	4,907	4,907	4,907	4,907	
assume March continues thru EOY											Est CY06 MMs	58,364	
<b>Medicaid Expansion Parents Member Months - July 2005 - December 2005:</b>													
Per DHA Enrollment Reports													
TOTAL – Covered lives	July	Aug	Sept	Oct	Nov	Dec							
	2,442	3,075	3,766	4,040	4,288	4,340							
						CY05 MMs	21,951						

<b>Medicaid Woodwork</b>												
MaineCare Enrollment for Individuals and Sole Proprietors who made a Dirigo application but who were enrolled in MaineCare and not Dirigo.												
<b>Member Months - July 2005 - December 2006:</b>												
A. Projected Total Member Months (07/01/05-12/31/06)						DHA system shows 76 people but number is probably closer to 250 so this is conservative (see below)				1,185		
<b>July 2005 - December 2006: Per Member Per Month:</b>												
B. Estimated PMPM cost for those enrolling (taken from the uninsured PMPM)										\$ 68.88		
C. Increase for trend to CY 2006						8.3% HMBI		6 qtrs ending 4th qtr 2006		\$ 74.57		
Base from hospital fiscal years ending in 2004, averaging ending 9/30/2004								over 4 qtrs ending 3rd qtr 2004 Version as of 2nd qtr 2006				
D. Adjust Charge PMPM to Cost PMPM						49.7%		From 2004 MCRs; This is conservative as the numbers are from Exhibit C which adjusts the data for non-allowable costs.		\$ 37.08		
E. Adjust for Cost-Sharing						4.3%		(See Attached Document)		\$ 35.50		
F. PMPM of those enrolling who were uninsured/under-insured = (E) times estimated increase risk of those enrolling in Medicaid (using Mercer's CPD below)										\$ 48.35		
G. Savings estimate for those enrolling (AxB)										\$ 57,290		
										<b>Total of Med Exp Parents and WW</b>		
										<b>\$ 3,940,220</b>		
<b>CY 2006 Woodwork Member Months</b>												
Per DHA Enrollment Reports, assumes no disenrollment but eligibility redetermination is scheduled for 12 months after enrollment												
TOTAL - Covered lives	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
Persons starting Enrollment	7	0	0	7	2	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MaineCare MMs	67	67	67	74	76	76	76	76	76	76	76	76
											Est CY06 MMs	883
assume May continues thru EOY												
<b>CY 2005 Woodwork Member Months</b>												
Per DHA Enrollment Reports, assumes no disenrollment but eligibility redetermination is scheduled for 12 months after enrollment												
TOTAL - Covered lives	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
Persons starting Enrollment	5	0	0	0	10	17	5	4	11	0	8	0
MaineCare MMs	N/A	N/A	N/A	N/A	N/A	N/A	37	41	52	52	60	60
											Est CY05 MMs	302

## Appendix F. MaineCare Adults Expansion Savings Calculation (con't)

Development of the Cost Sharing Adjustment			Data Source	Anthem's Cost and Utilization Summary Reports for DirigoChoice - Group and DirigoChoice - Sole Proprietor / Individual Analytic paid Period Ending Feb-2006 Reports dated 04/03/2006	
	Group	Sole Proprietor / Individual	Combined		Page Source
Cost Sharing	\$ 6,583,569	\$ 13,483,521	\$ 20,067,090		Executive Summary -- Employer Payments
Cost Sharing	\$ 2,368,283	\$ 4,048,151	\$ 6,416,434		Executive Summary -- Member payments
Total Allowed	\$ 8,951,852	\$ 17,531,672	\$ 26,483,524		
% Cost Sharing	26.5%	23.1%	24.2%		
Member-months	35,610	48,371	83,981		Executive Summary
PMPM					
Cost Sharing	\$ 184.88	\$ 278.75	\$ 238.95		
Cost Sharing	\$ 66.51	\$ 83.69	\$ 76.40		
Total Allowed	\$ 251.39	\$ 362.44	\$ 315.35		
Inpatient					
Cost Sharing	\$ 1,682,642	\$ 3,444,532	\$ 5,127,174		Page 3.B.1 -- Employer Paid
Cost Sharing	\$ 180,141	\$ 222,511	\$ 402,652		Page 3.B.1 -- Member Paid
Total Allowed	\$ 1,862,783	\$ 3,667,043	\$ 5,529,826		
% Cost Sharing	9.7%	6.1%	7.3%		
Outpatient					
Cost Sharing	\$ 2,069,071	\$ 4,353,838	\$ 6,422,909		Page 3.B.2 -- Employer Paid
Cost Sharing	\$ 919,644	\$ 1,484,206	\$ 2,403,850		Page 3.B.2 -- Member Paid
Total Allowed	\$ 2,988,715	\$ 5,838,044	\$ 8,826,759		
% Cost Sharing	30.8%	25.4%	27.2%		
Professional					
Cost Sharing	\$ 1,706,853	\$ 3,437,676	\$ 5,144,529		Page 3.B.3 -- Employer Paid
Cost Sharing	\$ 810,853	\$ 1,482,677	\$ 2,293,530		Page 3.B.3 -- Member Paid
Total Allowed	\$ 2,517,706	\$ 4,920,353	\$ 7,438,059		
% Cost Sharing	32.2%	30.1%	30.8%		
Prescription Drugs					
Cost Sharing	\$ 1,125,003	\$ 2,247,474	\$ 3,372,477		Page 3.B.4 -- Employer Paid
Cost Sharing	\$ 457,645	\$ 858,758	\$ 1,316,403		Page 3.B.4 -- Member Paid
Total Allowed	\$ 1,582,648	\$ 3,106,232	\$ 4,688,880		
% Cost Sharing	28.9%	27.6%	28.1%		
Summed Data					
Cost Sharing	\$ 6,583,569	\$ 13,483,520	\$ 20,067,089	Match	Page 3.B.4 -- Employer Paid
Cost Sharing	\$ 2,368,283	\$ 4,048,152	\$ 6,416,435	Match	Page 3.B.4 -- Member Paid
Total Allowed	\$ 8,951,852	\$ 17,531,672	\$ 26,483,524	Match	
% Cost Sharing	26.5%	23.1%	24.2%		
Hospital = Inpatient + Outpatient					
Cost Sharing	\$ 3,751,713	\$ 7,798,370	\$ 11,550,083		
Cost Sharing	\$ 1,099,785	\$ 1,706,717	\$ 2,806,502		
Total Allowed	\$ 4,851,498	\$ 9,505,087	\$ 14,356,585		
% Cost Sharing	22.7%	18.0%	19.5%		
				Hospital	Other
Portion of Bad Debt and Charity Care that is				84.1%	15.9%
					Total
Dirigo Benefit Plan Cost Sharing as % of Allowed Charge				19.5%	30.8%
Use Professional for Other, no Pharmacy BD &CC assumed					
Dirigo Benefit Plan Cost Sharing as % of Allowed Charge				16.4%	4.9%
Weighted for BD & CC weighted more heavily toward hospital services					21.3%
Assumed portion of Dirigo cost sharing that providers do not collect					20%
Portion of Dirigo Allowed Charges that become Bad Debt					4.3%



## Appendix G. CON/CIF Savings Calculation

### Certificate of Need and Capital Investment Fund (CON/CIF) Savings

Facility Name	Hospital/Non-Hospital	Letter of Intent (LOI) Date	Project Description	Reason for Savings	Expected 3rd Year	3rd Yr Operating Costs	Subject to Review Threshold <sup>(1)</sup>	3rd year Savings	Annual Interest Rate <sup>(3)</sup>	CY 2006 Present Value Savings
Eastern Maine Medical Center	Hospital	9/28/2005	Relocate Dialysis Program	Withdrawn and 3rd yr costs were to get under threshold.	CY 2009	\$ 600,000	\$ 400,000	\$ 200,000	4.87%	\$ 173,411
Inland	Hospital	9/30/2005	Build 150 bed replacement hospital	Withdrawn	CY 2010	\$ 3,000,000	\$ 400,000	\$ 2,600,000	4.90%	\$ 2,147,604
Maine Medical Center	Hospital	9/28/2005	Renovations & Improvements to Patient Billing, Lobby, Emergency Department and Space being vacated by Obstetrical & Neonatal	LOI had said \$2,250,000. MMC has said they will either (1) do as sm proj, or (2) withdraw altogether.	CY 2009	\$ 2,250,000	\$ 400,000	\$ 1,850,000	4.87%	\$ 1,604,050
NEHE-MRI <sup>(2)</sup>	Non-hospital	7/7/2004	Expansion of existing services by adding MRI at E ME HC Mall	Withdrawn 12/16/04, then amended leading to Not Subject to Review (NTSR)	CY 2007	\$ 480,533	\$ 400,000	\$ 80,533	4.90%	\$ 76,771

<sup>(1)</sup> Actual savings are likely greater, since actual 3rd year costs might be lower than \$400,000. \$400,000 is used here as an estimate for 3rd year costs because that is threshold below which projects are not subject to review.

<sup>(2)</sup> Did not report 3rd year operating costs. LOI submitted by Radiology Professionals on 12/22/2005 to Open Portland MRI used as a proxy for 3rd year costs..

<sup>(3)</sup> Daily treasury yield rates as of 04/28/06. The rates are reported by 1, 2, and 5 year rates thus the 4 year rate was interpolated.

**Note:** This is a conservative estimate for two reasons; The \$400,000 estimate is a conservative estimate since 3rd year costs may be lower. These are also the only projects known to be withdrawn due to the CON/CIF review procedures. There is likely a Sentinel Effect, where facilities did not even submit LOIs because they expected the project would not be approved.

<b>Withdrawn CON Applications</b>	<b>\$ 4,001,836</b>
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## Appendix G. CON/CIF Savings Calculation (con't)

### CON/CIF Savings for Large Hospital Projects not Approved in CY 2006

Expected 3rd Year <sup>(4)</sup>	3rd year Savings <sup>(5)</sup>	Annual Interest Rate	CY 2006 Present Value Savings
CY 2010	\$1,753,241	4.90%	\$ 1,448,180

<sup>(4)</sup> This is an estimated 3rd year savings based on the large hospital projects that have been submitted.

<sup>(5)</sup> This is the lowest possible savings for the large hospital projects that have been submitted. For all permutations of savings amounts, please see the attached charts.

<b>CY 2006 Savings from CON/CIF.</b>	<b>\$ 5,450,016</b>
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**Note:** Savings for projects not approved this year cannot be determined until after the approval process is completed. The exact amount of savings for large hospital projects will be known once the large hospital review cycle is completed after June 1. The savings from small hospital and non-hospital projects will be known once those review cycles are completed later in the year. The savings calculations will be updated at that time.

## Appendix G. CON/CIF Savings Calculation (con't)

### Large Hospital Certificate of Needs (CON) Submitted

Plan Indicator	Letter of Intent (LOI) Date	Facility Name	Project	Cap Cost	Base Op Cost	Base Costs after spreading Proj >\$2mil
A	6/13/2005	York Hospital	Construction/renovation of Surgical Service Facilities	\$7,875,000	\$771,139	\$771,139
B	9/28/2005	Eastern Maine Medical Center	Build New Cancer Center in Brewer	\$42,000,000	\$4,683,890	\$1,561,297
C	9/30/2005	Central Maine Medical Center	Relocate Critical Care Units on Hospital Campus	\$8,466,997	\$982,102	\$982,102
D	9/30/2005	MaineGeneral Medical Center	relocate/consolidate Services to Thayer Campus	\$107,299,000	\$4,407,158	\$1,469,053
		<b>Total</b>	<b>Total</b>	<b>\$165,640,997</b>	<b>\$10,844,289</b>	<b>\$4,783,590</b>

<b>Total Dollars Available for Large Hospital Projects in the Capital Investment Fund (CIF)</b>	<b>\$ 3,477,403.59</b>
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### Possible Permutations of Projects

Plans	Base Op Cost	Base Costs after spreading Proj >\$2mil	Approval Possible	3rd year Savings
A,B,C	\$ 6,437,131	\$ 3,314,538	Yes	\$ 4,407,158
A,B,D	\$ 9,862,187	\$ 3,801,488	No - Exceeds Available CIF	N/A
A,C,D	\$ 6,160,399	\$ 3,222,294	Yes	\$ 4,683,890
B,C,D	\$ 10,073,150	\$ 4,012,451	No - Exceeds Available CIF	N/A
A,B	\$ 5,455,029	\$ 2,332,436	Yes	\$ 5,389,260
A,C	\$ 1,753,241	\$ 1,753,241	Yes	\$ 9,091,048
A,D	\$ 5,178,297	\$ 2,240,192	Yes	\$ 5,665,992
B,C	\$ 5,665,992	\$ 2,543,399	Yes	\$ 5,178,297
B,D	\$ 9,091,048	\$ 3,030,349	Yes	\$ 1,753,241
C,D	\$ 5,389,260	\$ 2,451,155	Yes	\$ 5,455,029
A	\$ 771,139	\$ 771,139	Yes	\$ 10,073,150
B	\$ 4,683,890	\$ 1,561,297	Yes	\$ 6,160,399
C	\$ 982,102	\$ 982,102	Yes	\$ 9,862,187
D	\$ 4,407,158	\$ 1,469,053	Yes	\$ 6,437,131
None	\$ -	\$ -	Yes	\$ 10,844,289

## Appendix H. Hospital and Physician Fee Savings Calculations

<b>Hospital PIP Increases - data from State, 8/18/05 &amp; 4/25/06</b>																													
	<table> <tr> <th colspan="2">Hospital PIP Increases</th></tr> <tr> <td colspan="2"><b>To be paid:</b></td></tr> <tr> <td>\$ 292,414,914</td><td>SFY05</td></tr> <tr> <td>\$ 330,368,878</td><td>SFY06</td></tr> <tr> <td>\$ 37,953,964</td><td>Difference between SFY06 &amp; SFY05</td></tr> <tr> <td>\$ 350,661,028</td><td>SFY07</td></tr> <tr> <td>\$ 58,246,114</td><td>Difference between SFY07 &amp; SFY05</td></tr> <tr> <td>\$ 18,976,982</td><td>Half of SFY06 increase</td></tr> <tr> <td>\$ 29,123,057</td><td>Half of SFY07 increase</td></tr> <tr> <td>\$ 48,100,039</td><td></td></tr> <tr> <td colspan="2">3 years</td></tr> <tr> <td>4.30%</td><td>\$ 2,554,805</td></tr> <tr> <td>4.87%</td><td>\$ 4,465,455</td></tr> <tr> <td></td><td><b>\$ 7,020,260</b></td></tr> </table>	Hospital PIP Increases		<b>To be paid:</b>		\$ 292,414,914	SFY05	\$ 330,368,878	SFY06	\$ 37,953,964	Difference between SFY06 & SFY05	\$ 350,661,028	SFY07	\$ 58,246,114	Difference between SFY07 & SFY05	\$ 18,976,982	Half of SFY06 increase	\$ 29,123,057	Half of SFY07 increase	\$ 48,100,039		3 years		4.30%	\$ 2,554,805	4.87%	\$ 4,465,455		<b>\$ 7,020,260</b>
Hospital PIP Increases																													
<b>To be paid:</b>																													
\$ 292,414,914	SFY05																												
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3 years																													
4.30%	\$ 2,554,805																												
4.87%	\$ 4,465,455																												
	<b>\$ 7,020,260</b>																												
1. Determine increase in PIPs																													
2. Determine increased amount to be paid in CY06 January – June 2006 July – December 2006 Total for Calendar Year 2006																													
3. Determine time value of money due to hospitals getting increase in PIPs 3 years early, which is the savings. January – June 2006 portion, 3 years from midpoint Use 3 year rate as of April 3, 2006.																													
July – December 2006 portions, 3 years from midpoint Use 3 year rate as of April 28, 2006, latest available, since October 2, 2006 is not available.																													
<i>Interest rates come from the U.S. Treasury Department's website detailing Treasury Yield Curve Rates. Data was captured on April 28, 2006.</i>																													
<b>Physician Fee Increase - data from State, 8/18/05 &amp; 4/25/06</b>																													
	<table> <tr> <th colspan="2">Physician Fee Increases</th></tr> <tr> <td colspan="2"><b>To be paid:</b></td></tr> <tr> <td>\$ 8,200,000</td><td>SFY06</td></tr> <tr> <td>\$ 8,200,000</td><td>SFY07</td></tr> <tr> <td>½ of SFY06 plus ½ of SFY07</td><td><b>\$ 8,200,000</b></td></tr> </table>	Physician Fee Increases		<b>To be paid:</b>		\$ 8,200,000	SFY06	\$ 8,200,000	SFY07	½ of SFY06 plus ½ of SFY07	<b>\$ 8,200,000</b>																		
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1. Determine fee increase amounts																													
2. Determine amount to be paid over CY06, which is the savings.																													
<b>Total Hospital and Physician Fee Initiative Savings</b>																													
	<b>\$ 15,220,260</b>																												

**MERCER**

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